Currents

- THE RECESSION AND YOUR REGION
- DIAMONDS IN SASKATCHEWAN
- PAYING FOR HEALTH CARE

Canada West FOUNDATION

Western Canada's Monthly Economic Bulletin

Vol. 2010, No. 5

Monthly Highlights

Employment grew in all provinces in April. The combined 0.6% gain over March levels was the largest monthly advance in percentage terms since 2002. Job growth in the western provinces matched the national pace. Manitoba led the way with a 1.1% gain (or 6,800 jobs—nearly one-quarter of the jobs created in the West). BC's job performance in April (+0.6%) was the best in seven months.

Unemployment rates declined across the West except in Saskatchewan, where the jobless rate edged up from 5.1% to 5.2%. For the first time in a year, Manitoba took over for Saskatchewan as the province with the lowest unemployment rate in Canada (4.9%). Meanwhile, BC's unemployment rate dropped to 7.3% and is now lower than Alberta's for the first time in the last 16 years.

In March, the year-to-year consumer inflation rate increased in all provinces but increases in the West were the smallest across the country. BC's inflation rate dropped to 0.5% compared to 1.2% in February as prices for traveller accommodation returned to normal following the Winter Olympics.

In February, wholesale sales rose 5.5% in Saskatchewan compared to January, helped by higher sales of agricultural supplies. This was the fastest pace in the country. BC's sales fell 4.3% following four months of uninterrupted growth. Retail sales were virtually unchanged in BC and in Saskatchewan but rose 1.4% in Manitoba and 1.0% in Alberta. The Alberta increase was mainly due to strong new car dealer sales.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,303	1,979	528	619	17,072	April
% change	0.6	0.5	0.1	1.1	0.6	
Unemployment rate (%)	7.3	7.4	5.2	4.9	8.1	April
change in percentage points	-0.6	-0.1	0.1	-0.3	-0.1	
Participation rate (%)	66.0	73.4	70.6	69.8	67.2	April
Average weekly earnings ($)	810.93	989.77	824.42	776.14	843.91	February
% change	0.7	2.7	-0.3	0.7	1.0	
Inflation						
Consumer Price Index (% change)*	0.5	1.0	1.1	1.5	1.4	February
Economic Activity						
Housing starts (000s)**	24.9	34.1	4.0	3.8	199.2	March
% change	-17.5	20.5	-20.0	-29.6	-2.3	
Retail trade ($M)	4,844	4,940	1,225	1,307	36,014	February
% change	0.1	1.0	0.0	1.4	0.5	
Wholesale trade ($M)	3,977	4,833	1,593	1,083	43,834	February
% change	-4.3	2.8	5.5	-0.7	-1.2	
Manufacturing sales ($M)	2,873	5,048	933	1,155	44,098	February
% change	1.1	4.4	1.9	-0.3	0.1	

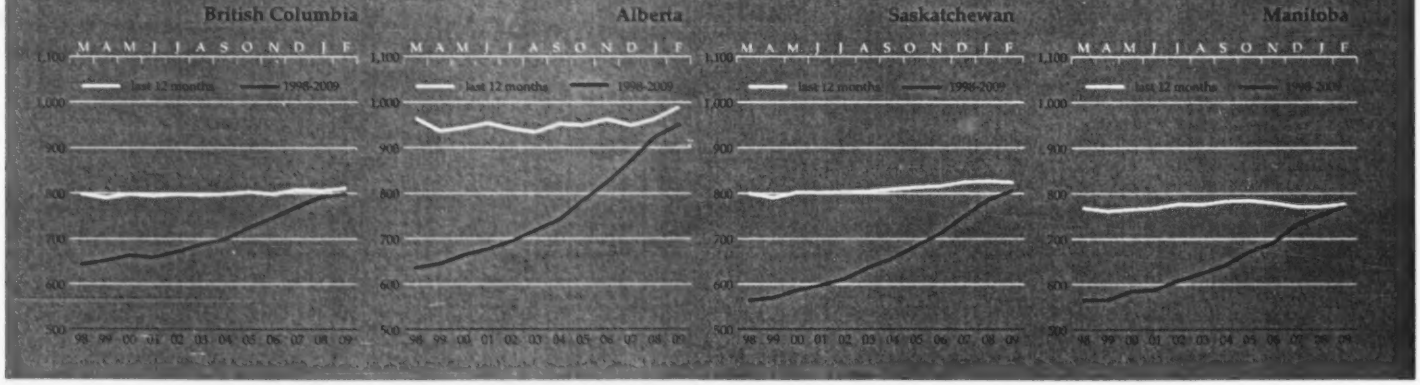
** Compared to same month in the previous year. ** Annual rate (monthly figures are multiplied by 12 to reflect annual levels). Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corp.*

Currents is sponsored by:

CANADIAN WESTERN BANK

Average Weekly Earnings ($)

Source: Statistics Canada



Monthly Feature

A Regional Portrait of the Recession

Recessions have one particularly nasty habit: their effects linger long after the crisis is officially over and this is especially the case for job losses. In the West, most indicators show that the recovery is underway but we are in a wait-and-see mode as to when jobs will return to their pre-recession levels.

While we wait, it is perhaps a good time to assess the depth of the job hole the recession created—from which we now have to climb out—on a provincial and sub-provincial region by region basis.

At the provincial level, the general storyline is as follows. Jobs in Manitoba and Saskatchewan held steady during the economic downturn and are now already slightly above their pre-recession levels. On the other hand, BC and Alberta job levels both headed south as soon as the recession started. BC was the first to bounce back starting in the spring of 2009 but Alberta has kept trending down and no definite turnaround has appeared as yet. The depth of the hole in Alberta is keeping the West combined job picture at 1% short of pre-recession (2008) levels.

This 1% gap overall may look encouraging, but behind these data lurks a real untold story of many dramatic changes in regional employment at the sub-provincial level over the last two years (see Figure below). In many of these areas, the upward or downward volatility of employment results from a high dependence on resources as an economic lever.

BC is perhaps the best example of resource-driven job change occurring in economic regions. In percentage terms, one of the West's biggest job gains occurred in BC's northeast energy boom zone. However, the largest job losses in the West were also felt in BC. They took place in two forestry-oriented regions (North Coast and Nechako, and Cariboo), where unemployment rates are now quite high (well above 10% in North Coast and Nechako's case).

In Manitoba, it appears that the region around Winnipeg has been siphoning jobs from the core city. The four regions around Winnipeg are the only ones where Manitoba created jobs during the recession. The Southeast (incl. Steinbach) posted the highest job growth in the West at 14.5%.

In Alberta, there were significant job losses in the southeast portion of the province, where a large chunk of the conventional oil and gas activity is located. Additionally, among the West's major cities, Edmonton was the worst hit, losing 2.4% of its jobs. The northwest quadrant of Alberta is where the fastest job growth took place in the province due to new employment in services such as accommodation and food.

Overall, Saskatchewan was the western province with the most balanced job performance from a regional perspective: despite the recession, prosperity triggered by crops, potash and a growing population spread across the province and each one of the regions posted job growth.

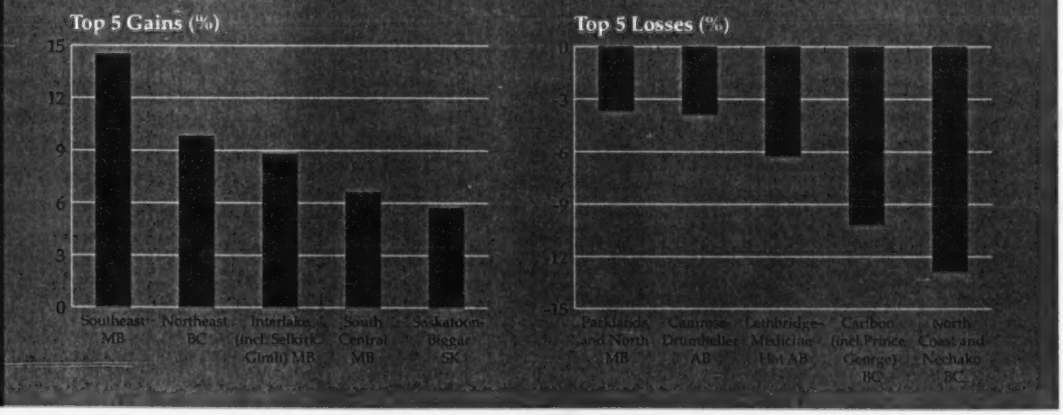
As evident from these data, a national recession can result in a myriad of different provincial and regional employment outcomes. Government policy approaches needs to consider these realities when looking for appropriate remedies. This recession was not one-size-fits-all, and nor will be the right measures put in place to recover from it.

Did you know?

- There are 30 Economic Regions (ER) in the West according to Statistics Canada: eight for BC, Alberta and Manitoba, and six for Saskatchewan. (For this report, some of those regions were combined).
- The highest regional unemployment rate in the West is observed in BC's North Coast and Nechako region (11.8% in April).
- The lowest regional unemployment rate is in South Central Manitoba (which includes the city of Winkler). At 2.9%, it is also the lowest in all of Canada.
- Among the 15 regions with the lowest unemployment rate in Canada, six are in Manitoba, four are in Saskatchewan, three are in Alberta and one is in BC, which leaves Quebec City as the only region not in the West in this list.
- The Saskatoon-Biggar region created the largest number of jobs across the West over the last two years (+9,300).

Top 5 Employment Gains and Losses by Economic Region,
(March 2008 to March 2010)

Source: Statistics Canada

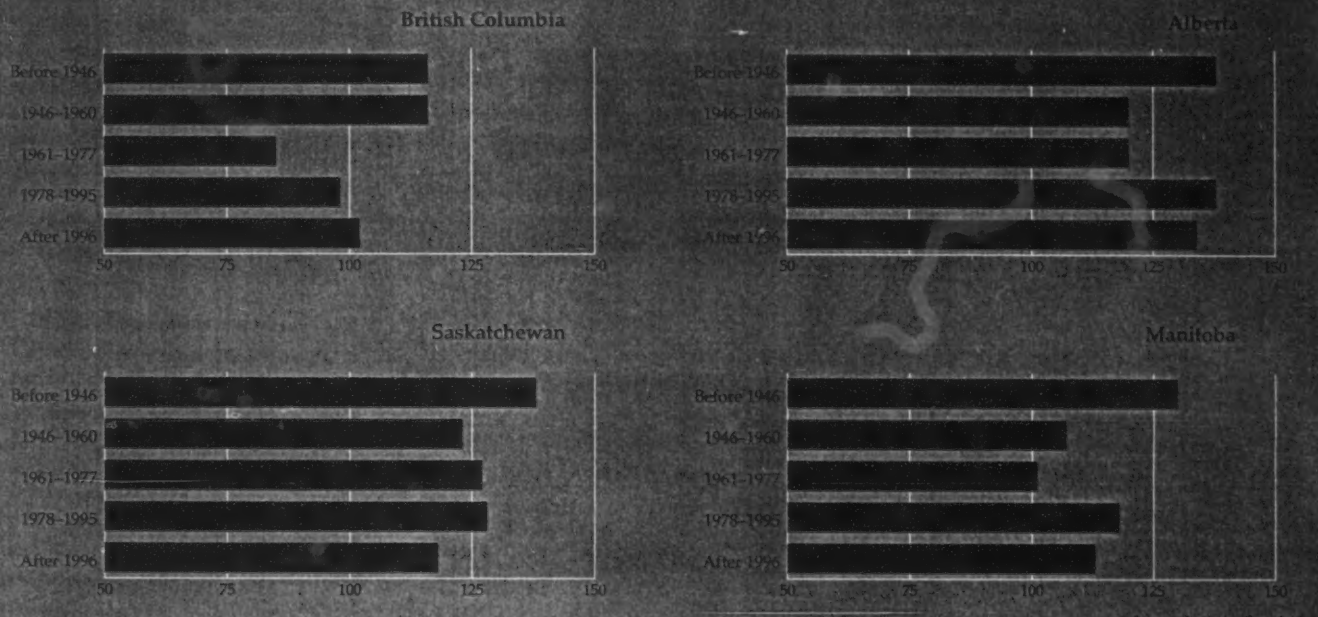


BEHIND THE NUMBERS

New homes are more energy-efficient. Anyone who has moved into a recently-built house after living in an older one has experienced how warm in winter (and cool in summer) the newer one is – thanks to better insulation technology and more air-tight construction. This does not mean, however, that energy use per household has been decreasing steadily as new homes replaced old ones.

As the charts show, there is a gradual reduction in energy use as we move from the earliest homes (i.e., built before 1946) to the "middle-aged" homes of the 1960s and 1970s. After this though, energy use per household grows again. It is true that as a result of innovations, recent houses use less energy per square foot, but the dramatic increase in the size of those houses has offset that reduction. Across the West, the end result is that households living in homes built in 1978 or later use more energy on average than those living in homes built from 1961 to 1977.

Average Household Energy Use, by Dwelling Construction Period (Gigajoules per Household)



Source: Statistics Canada

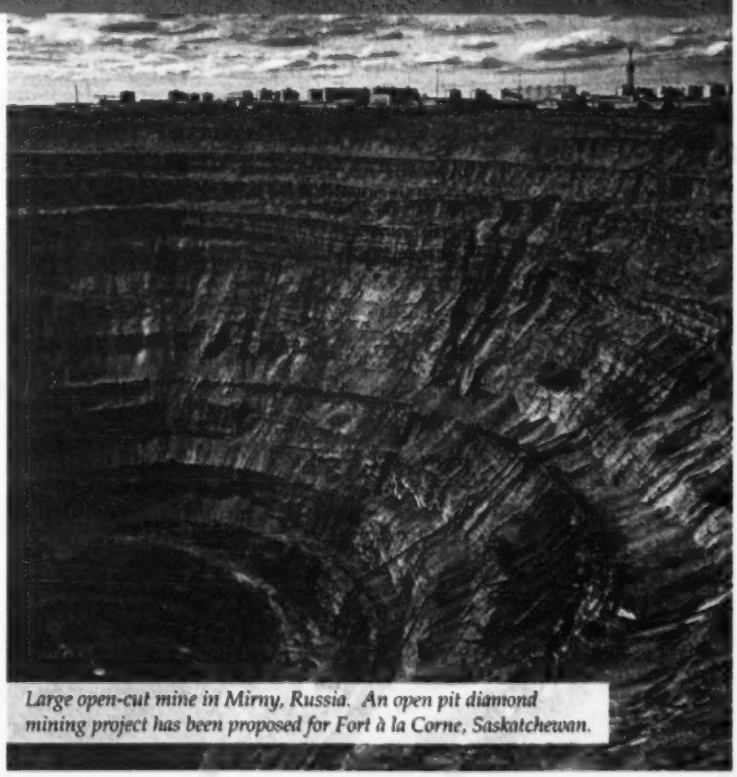
Industry Spotlight: Saskatchewan

Diamond Mining

Saskatchewan's diamond mining industry began in 1988, with the province's first discovery of diamond-bearing kimberlite near Sturgeon Lake, approximately 30 kilometres outside Prince Albert. A year later, vast kimberlite deposits were discovered in the Fort à la Corne area. There are more. In fact, the entire province is considered to have potential for diamond exploration.

Separating the diamond from the kimberlite requires crushing, blending with water and running the final mixture over a grease table, to which only the diamonds adhere. This process uses no toxic chemicals. This means that aside from disturbance of the land, Saskatchewan's diamond mining industry is free of the larger environmental challenges faced by other mining industries.

Saskatchewan is not the only region in Canada possessing diamond deposits: the Northwest Territories also have several large diamond mining operations. However, Saskatchewan's sites are easier to reach by road, rail or air.



Large open-cut mine in Mirny, Russia. An open pit diamond mining project has been proposed for Fort à la Corne, Saskatchewan.

CanadaWest FOUNDATION

opinion

by Jacques Marcil, Senior Economist

Quebec's Health Care Policy Matters to the West

They are as different from each other as St. John's is from Vancouver, but all of Canada's provincial health care systems fall under two "laws". The first law is the *Canada Health Act*, which defines the national rules of the game. The second law you may be more familiar with: it is the law of continuously growing costs.

Health care costs represent the largest single expense in every province's budget and they keep on rising and rising. Unless something changes, governments will soon have no choice but to scale down health services or go bankrupt. The only way to avoid a reduction in services is to use expenditure and/or income measures to return to health care financial sustainability.

On the expenditure side, many of this year's provincial budgets featured a section on each province's plan to curb health care costs over the next three, four or five years. The majority of observers expressed skepticism about those plans, and rightly so. Provinces have shady track records in this area. In short, an expenditure-based solution is very unlikely in the near future.

As to the income side, two obstacles stand in the way of any province who wants to raise revenues to mitigate rising health care costs. First, the *Canada Health Act* says that necessary medical services must be available to all on a prepaid basis. (In other words, the sick do not pay more than the healthy). Second, tax increases are very unpopular and most of the time they spell doom for the governments who implement them. No elected provincial government in their right mind would want to increase its revenues to finance health care.

Well, wait a minute. That's what the Quebec government just did. Last March, the province's budget introduced a new annual tax levy earmarked for health care, as well as a user fee to be applied each time someone uses the public health system. Not surprisingly, there was a strong backlash in Quebec against the Charest government following those announcements. However, as unpopular as those measures may be, they are the right thing to do.

But why Quebec? Quebec faces the same pressures as the other provinces: increasing costs due to expensive new technology, and losses in service quality. But on top of this, Quebec's public debt is the worst across the country on a per capita basis. Also, within a few years, Quebec's working-age population will start shrinking: there will be fewer workers to finance health care for an increasingly aging population. So Quebec is the canary in the health care coal mine: it is closer to the danger zone than other provinces are.

What happens next? Health care premiums are nothing new (many provinces had or still have them in place), but user fees are a whole different story. The federal government may very well challenge the new "Quebec way" under the Canada Health Act. This should be a cue for other provinces, including the West, to add their voices to the debate. All should make sure that unrestricted availability doesn't make health care financially unsustainable. Otherwise, the best would become the enemy of the good.

There is some room for negotiation here. If one reads between the lines of the last Flaherty budget, it looks like the federal government wants to gradually move out of provincial areas of jurisdiction. Health is one of those areas. Why not revise the *Canada Health Act* to reflect today's and tomorrow's demographics, and allow provinces to seek new forms of revenue to support their health care systems?

Eventually, all provinces will have to face this issue as Quebec did. In Canadian health care, demographic timing is the only real difference between jurisdictions. Time to open the discussions. Federal-provincial negotiations are not the most exciting way to enjoy a weekend, but they sure beat spending it in the waiting room of an underfunded hospital. ■

Head Office:
900 – 1202 Centre Street SE
Calgary, AB , Canada T2G 5A5
ph: 403-264-9535
fax: 403-269-4776
toll-free: 1-888-825-5293
email: cwf@cwf.ca
website: www.cwf.ca

British Columbia Office:
810 – 1050 West Pender Street
Vancouver, BC V6E 3S7
ph: 604-646-4625
fax: 604-684-7957
email: kunin@cwf.ca

Saskatchewan Office:
KW Nasser Centre
256 – 3 Avenue South
Saskatoon, SK S7K 1L9
ph: 306-966-1251
fax: 306-966-8812
email: vicq@cwf.ca

Manitoba Office:
400 – 161 Portage Avenue East
Winnipeg, MB R3B 0Y4
ph: 204-947-3958
fax: 204-942-3563
email: carson@cwf.ca

Currents **is published monthly by Canada West Foundation. The information contained in this report has been drawn from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it does Canada West Foundation assume any responsibility or liability. Notwithstanding the fact that effort has been made to ensure the accuracy of the information and forecasts contained herein, this report's content should not be construed as financial advice.**

CANADIAN WESTERN BANK

Currents **is sponsored by Canadian Western Bank. Canadian Western Bank is the largest Schedule I chartered bank with headquarters and principal operations in western Canada. Visit www.cwbank.com.**